Attachment 2

WILSHIRE CONSULTING

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Managing Director & Principal

January 26, 2009

Mr. Theodore Eliopolous
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Supplemental Income Plans – Asset Allocation Ranges

Dear Ted,

You requested Wilshire's opinion with respect to Staff's proposal to broaden the acceptable ranges for the CalPERS-managed target retirement date and risk-based asset allocation funds within the Supplemental Income Plans.

Recommendation

Wilshire recommends that the Investment Committee approve the slightly expanded ranges for the CalPERS-managed fund line up. This action echoes the recent expansion of the ranges within the PERF and is appropriate given the amount of volatility and liquidity within the financial markets.

Background

The CalPERS-managed target retirement dated and risk-based funds each have target asset allocations that reflect an appropriate mix of asset classes for users of each fund. In addition, each fund has a range of acceptable variation from the target allocation, to allow for movements within the financial markets. The ranges were designed to allow some flexibility so that Staff is not continuously rebalancing the funds due to market returns, but still keep the intended risk and return profile intact.

The current ranges were designed prior to the dramatic increase in volatility within the financial markets that occurred during the fourth quarter of 2008. Coupling that volatility with severely limited liquidity in the fixed income markets, lead to an untenable situation in which rebalancing could have forced fixed income liquidations at prices which had no relation to the fundamental value of the securities. By slightly expanding the acceptable ranges for each of the asset classes in each of the funds, Staff would be less likely to be a forced seller in a market with limited liquidity.

Wilshire has discussed additional options with Staff to address rebalancing these funds in the future, including using cash flows as a de facto rebalancing mechanism, rather than prorating the cash flows by the target allocation percentages.

Conclusion

Wilshire believes that the proposed changes allow Staff greater flexibility in managing the SIP target retirement date and risk-based funds during times of extreme market volatility. We believe that this flexibility will serve to protect the interests of the investors in each fund without sacrificing the long-term targets risk and return profiles of the funds.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,